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BALLOT PROPOSAL 02-2

An Overview

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On November 5, 2002, voters in Michigan will decide whether to authorize the State to issue up to \$1 billion in general obligation bonds to finance sewage treatment works projects, storm water projects, and water pollution projects, in order to improve the quality of the waters of the State. The bonds may not be issued unless a majority of the electors voting cast "yes" votes on Proposal 02-2.

Proposal 02-2

The ballot proposal is the result of Public Act 396 of 2002, which creates the Great Lakes Water Quality Bond Authorization Act and requires the question of issuing the bonds to go before the voters. The language that will appear on the ballot is as follows:

PROPOSAL 02-2

A PROPOSAL TO AUTHORIZE BONDS FOR SEWAGE TREATMENT WORKS PROJECTS, STORM WATER PROJECTS AND WATER POLLUTION PROJECTS

The proposal would:

- *Authorize the State of Michigan to borrow a sum not to exceed \$1 billion to improve the quality of the waters of the state by financing sewage treatment works projects, storm water projects and water pollution projects.*
- *Authorize the state to issue general obligation bonds pledging the full faith and credit of the state for the payment of principal and interest on the bonds.*
- *Provide for the repayment of the bonds from the general fund of the state.*

Should this proposal be adopted?

Yes _

No _

Approval of Proposal 02-2 also will enable a package of related legislation to take effect. The legislation directs the expenditure of the bond proceeds, and includes the creation of a Great Lakes Water Quality Bond Fund, as well as a Strategic Water Quality Initiatives Program and a Strategic Water Quality Initiatives Fund. The legislation also requires the Department of Environmental Quality to develop a priority list separate from the one used in administering the existing State Water Pollution Control Revolving Fund (described below) for projects funded by the Strategic Water Quality Initiatives Fund, and requires additional priority points for certain projects addressing on-site septic systems.

Use of Bonds

If Proposal 02-2 is approved, the total proceeds of the \$1 billion in bonds authorized under the Great Lakes Water Quality Bond Authorization Act will have to be deposited into the Great Lakes Water Quality Bond Fund, which will be used as follows: 90% to be deposited into the State Water Pollution Control Revolving Fund, and 10% to be deposited into the Strategic Water Quality Initiatives Fund.

The State Water Pollution Control Revolving Fund provides low-interest loans to assist municipalities in funding wastewater treatment improvements (although the need for assistance far exceeds the funding available). The projects may include wastewater plant upgrades or expansions, combined sewer overflow abatement, new sewers designed to reduce existing sources of pollution, water pollution management measures, and other related wastewater treatment efforts. Qualified municipalities must meet Federal and State program requirements, and demonstrate environmentally sound water pollution control project plans.

The Strategic Water Quality Initiatives Fund will help finance the Strategic Water Quality Initiatives Loan Program. That program will make low-interest loans to municipalities to provide assistance for one or both of the following sewage system improvements: improvements to reduce or eliminate the amount of groundwater or storm water entering a sanitary sewer lead or a combined sewer lead; and upgrades or replacement of failing on-site septic systems that are adversely affecting public health and/or the environment.

Cost

If the voters approve Proposal 02-2, the annual cost of repaying the bonds will depend on when the bonds actually are sold, the term of the bonds sold, and the level of interest rates at that time. Because implementing legislation requires the first bond issue to be structured so that debt payments do not begin before October 1, 2003, the bond issue will have no cost until after that date. The debt service on the bonds, after October 1, 2003, will be approximately \$8 million in the first year, assuming 20-year bonds issued over a 10-year period at a constant interest rate of 5%. The debt service will increase by \$8 million per year until the 10th year, when the entire authorized bond issue has been distributed, and the debt service amount will be \$80.2 million. The debt service will remain \$80.2 million for 11 years, after which it will decrease gradually until all of the bonds are paid off. All of the bonds will be paid off in 30 years. The interest costs will be \$605 million, bringing the total cost of the bonds to \$1.605 billion of General Fund/General Purpose money.

Assuming that there are approximately 4.8 million taxpayers in the State, then the total cost per taxpayer of the bonds over the 30 years will be \$334, or an average of \$11 per year.

Sources of Additional Information

A detailed description of Proposal 02-2 and the related legislation is contained in the Senate Fiscal Agency's First Analysis of House Bills 4625, 5892, and 5893. For more information on wastewater control project funding and sewer overflow issues, see the Senate Fiscal Agency's March/April 2001 issue of "State Notes: Topics of Legislative Interest". These documents are available on the Agency's website (under the category "Agency Publications"), and may be requested from the Agency.

For additional informational on priority lists and the State Water Pollution Control Revolving Fund, see the Department of Environmental Quality's website at <http://www.michigan.gov/deq>.